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Section: Business

ABBOTT, BAXTER FIGHT BACK

DRUGMAKERS SAY FAULT LIES IN LAW'S FAILURE TO DEFINE PRICE POLICY
Bruce Japsen, Tribune Staff Writer. Tribune staff writer David Greising contributed
to this story.

Abbott Laboratories and Baxter International Inc. defended their business
practices Wednesday in the wake of a congressional report that alleged some
pharmaceutical companies inflated drug prices at Medicare's expense.

The two were named with at least 10 other companies in the report, produced by the
House Commerce Committee, which accused them of artificially raising their so-
called sticker price to encourage doctors to prescribe their drugs. Medicare would
reimburse doctors at the higher rate, even though the drugmakers charged the doctor
a discounted rate--allowing the physician to pocket the difference.

Deerfield-based Baxter on Wednesday said its employees were aware that some
companies were manipulating such spreads, but denied any involvement and said the
company has acted lawfully. It declined to name companies that its executives
believed were acting improperly.

Meanwhile, North Chicago-based Abbott, too, said it operated legally within a
system created and approved by the government. But Abbott Chief Executive Miles
White also said he supports changing the system to curb abuses.

"The Medicare law ought to be changed," he said in a statement Wednesday night. "If
the intent of this law is no longer to provide benefit to physicians who administer
certain drugs in their office, then this system should be changed."

Indeed, Commerce Committee Chairman Thomas Bliley (R-Va.) in the report criticized
the Medicare program for ignoring flaws in its payment system that allowed
drugmakers to manipulate prices.

White said the pricing system lacks clarity and said congressional investigators
recognize that.

"This is really nothing new," White said in Chicago earlier Wednesday in a brief
interview after he addressed a luncheon of business executives on the company's e-

commerce strategies. "There's nothing new here."

Any concerns Bliley may have result from the fact that Congress and the Health Care Financing Administration, which runs Medicare, "have never defined the pricing" policies clearly, White said.

Under the current system, Medicare covers about 50 medications, mostly drugs used to treat cancer, hemophilia and AIDS patients, that have to be administered in a doctor's office.

Investigators say they are eager to close any potential loopholes in the Medicare program, especially now that both presidential candidates, Republican George W. Bush and Democrat Al Gore, are discussing expanding drug coverage for 39 million people insured by the federal health insurance program for the elderly and disabled.

"Congressman Bliley has an interest in this issue," White said. "But I think you need to look at the structure of the regulations."

Asked if Bliley's report is politically motivated, White said: "It's six weeks before an election. What do you think?"

The committee, however, said its investigation has been going on for 18 months and denied it was politically motivated.

Because of the industry's pricing practices, investigators allege the government health-care programs have overpaid by hundreds of millions of dollars annually.

Some drug companies raised prices upon finding out rivals would be able to offer care providers steeper discounts and thus more profits, investigators said.

An Abbott affiliate, TAP Pharmaceutical Products Inc., of Lake Forest, used the phrase "return to practice" for its prostate cancer drug Lupron, while other companies described Medicare payments as "return on investment," according to internal company memos obtained by Commerce Committee probers.

Baxter, however, denies such practices. "Baxter did not manipulate the spreads," said spokeswoman Deborah Spak. "Baxter has conducted itself in a lawful manner." She said the firm raised wholesale prices to cover the cost of producing its immune system treatment known as Gammagard.

"The materials released this week [by the Commerce Committee] demonstrate that Baxter was aware of competitors' pricing practices but did not respond in kind," Spak said.

Still, the commerce committee stands by its investigation and evidence showing Baxter, Abbott and TAP were among the companies that took advantage of Medicare reimbursement formulas.

"It's clear from the committee's investigation that there are a number of companies that have participated in the manipulation of the **average wholesale prices** and there's evidence that points to Baxter and Abbott," committee spokesman Pete Sheffield said.

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